# Sunway Construction (SCGB MK)

A Bright Summer

| | |
|---|---|
| **BUY** (Maintained) | |
| Share Price | RM6.90 |
| Target Price | RM7.65 |
| Upside | 10.9% |
| Previous TP: | RM7.40 |

**Analyst(s)**
**Jack Goh**
jackgoh@uobkayhian.com
(03) 2147 1943
**Jack Lai**
+603 2147 1983
jacklai@uobkayhian.com

## Highlights

- Following a virtual meeting with management last week, we maintain our optimistic outlook on Suncon in 2026. The group's resilient orderbook replenishment and strong DC tender pipelines remain as key catalysts.
- From a capital management perspective, we also like Suncon for its Implied dividend yield of 5.0-5.1% for 2026-27, based on our 100% dividend payout assumptions.
- **Maintain BUY with a raised target price of RM7.65,** which implies 22x 2027F PE (+1SD above five-year mean of 18x).

## Analysis

- **Orderbook target revised to RM6b for 2026.** Following recent contracts wins, Sunway Construction (Suncon) has secured around RM3.4b of new jobs ytd. Management is now targeting a RM6b orderbook in 2026F, up from its initial target of RM4.5b-6b earlier this year. We remain optimistic that this target is highly attainable, well supported by accelerating local infrastructure job flows and data centre (DC) related contracts.
- **Earnings growth well supported by outstanding orderbook and tenderbook pipelines.** Suncon's current outstanding orderbook stands tall at around RM8.7b (>1x orderbook cover), with over RM17.5b tenderbook pipeline. We remain optimistic that the group is well positioned to clinch more contracts in 2026-27. Potential contract opportunities for 2026 include: a) multiple DC contracts (RM4b-6b), b) internal project flows from parent company Sunway Berhad (Sunway) (RM1b), and c) public infrastructure projects such as Penang LRT and MRT 3 civil packages (landbank acquisition completing in end-26).
- **Valuations remain reasonable with attractive yield and capital management upside.** Suncon is in a net cash position of about RM1.7b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. Adjacent with the yoy earnings growth, we forecast a 100% dividend payout ratio in 2026-28, implying a lush prospective yield of 5.0-5.1%. We also do not rule out potential special dividends as the group has sufficient room for better capital management.

### Key Financials

| Year to 31 Dec (RMm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 3,521.7 | 5,339 | 5,337 | 5,476 | 5,580 |
| EBITDA | 279.4 | 469 | 483 | 487 | 514 |
| Operating profit | 262.2 | 448 | 454 | 462 | 491 |
| Net profit (rep./act.) | 186.9 | 362 | 435 | 449 | 480 |
| Net profit (adj.) | 167.2 | 425 | 435 | 449 | 480 |
| EPS | 13.0 | 33.0 | 33.7 | 34.8 | 37.2 |
| PE (x) | 48.6 | 21.0 | 20.5 | 19.8 | 18.6 |
| P/B (x) | 9.3 | 8.2 | 8.2 | 8.3 | 8.4 |
| EV/EBITDA (x) | 28.3 | 16.2 | 15.8 | 15.6 | 14.8 |
| Dividend yield (%) | 1.4 | 7.3 | 5.0 | 5.1 | 5.5 |
| Net margin (%) | 5.3 | 6.8 | 8.1 | 8.2 | 8.6 |
| Net debt/(cash) to equity(%) | (32.5) | (156.4) | (152.2) | (159.9) | (165.3) |
| Interest cover (x) | n.a | n.a. | n.a. | n.a. | n.a. |
| ROE (%) | 24.7 | 36.8 | 40.1 | 41.7 | 44.8 |
| Consensus net profit | n.a | n.a | 414.0 | 430.6 | 419.5 |
| UOBKH/Consensus (x) | n.a | n.a | 1.05 | 1.04 | 1.14 |

*Source: Sunway Construction, Bloomberg, UOB Kay Hian*

### Stock Data

| | |
|---|---|
| GICS Sector | Industrials |
| Bloomberg ticker | SCGB MK |
| Shares issued (m) | 1,328.5 |
| Market cap (RMm) | 9,166.9 |
| Market cap (US$m) | 2,317.9 |
| 3-mth avg daily t'over (US$m) | 5.4 |

### Price Performance (%)

| 52-week high/low | | | | RM7.2/RM4.3 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 0.0 | 17.2 | 22.2 | 62.3 | 21.9 |

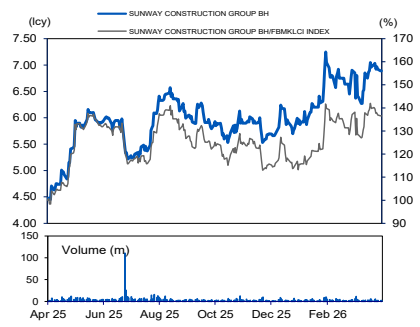
### Major Shareholders %

| | |
|---|---|
| Sunway Holdings Sdn Bhd | 53.0 |
| Sungei Way Corp Sdn Bhd | 7.1 |
| Employees Provident Fund Board | 4.2 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (RM) | 0.8 |
| FY26 Net Debt/Share (RM) | (1.3) |

### Price Chart




*Source: Bloomberg*

### Company Description

A leading construction company in Malaysia.

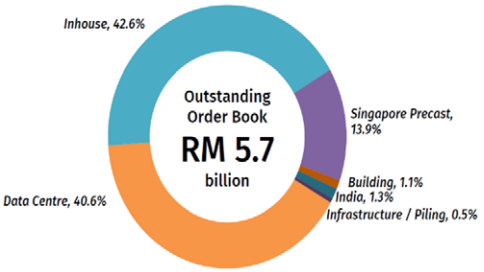
- **DC-powered growth narratives remain exciting.** Note that Suncon secured three DC contracts worth RM2.94b in 2025, and another RM1.75b DC contract ytd in 2026. The group currently has one completed and 10 ongoing DC projects with a combined 360-380MW IT load, with DC works making up >50% of its total outstanding orderbook. Of the current tenderbook of about RM17.5b, around 90% are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of >700MW (estimated value of RM16b-17b) that may be awarded within 2026-27. Overall, we assess that Suncon is in a good position to win several DC bids in 2026-27. This will lift the group's overall margins as a DC has a shorter construction period and better profit margins.
- **Internal job flows supporting growth trajectories.** We forecast a RM1b orderbook replenishment from Suncon's parent company – Sunway Berhad in 2026. This mainly comes from potential internal project flows in the pipeline, such as: a) Sunway Medical's hospital expansion, b) Sunway's new property launches of RM2b-3b p.a. in the coming years, c) multiple capacity expansions of medical centres, as well as d) potential renovation and refurbishment works for Sunway's existing hotels and malls. We believe that these internal projects will be doled out by Sunway in stages throughout 2026-27, and earnings translation is likely to be spread out across years.
- **Manageable impact from various input cost accelerations.** While the elevated crude oil prices due to the full blockade of Strait of Hormuz are raising building material prices, on-the-ground cost hikes for construction companies are well capped and less severe than expected. We estimate that the impact on Suncon's margins is relatively manageable as most of the contracts have variation-of-price (VOP) clauses which allow part of the additional costs to be passed on to end-clients. Overall, we assess that the negative earnings impact from these input costs increase is within 3-4%.

**Outstanding Orderbook As Of End-4Q25**

| Projects | (RMm) |
|---|---|
| JHB1X0 Data Centre | 613 |
| K2 Phase 2 Data Centre | 162 |
| RTS Link Package 1B & 5 | 28 |
| Daiso Warehouse | 57 |
| PSR -MNC | 203 |
| ECI & Work Order - MNC | 5 |
| General DC Contractor Work - MNC | 1,007 |
| India Highways | 77 |
| Others | 316 |
| Total External (A) | 2,307 |
| RTS TOD | 1,295 |
| Sunway Square Superstructure+VO | 108 |
| SW Flora | 5 |
| SW Ipoh Mall | 961 |
| Sunmed PH2 and PH3 fit-out | 49 |
| Total Internal (B) | 2,417 |
| Precast Concrete (C) | 787 |
| Grand Total (A+B+C) | 5,442 |

*Source: Suncon*

**Orderbook As Of 4Q25**




*Source: Suncon*

## Valuation/Recommendation

- **Maintain BUY with a higher target price of RM7.65 (from RM7.40),** as we roll over our valuations to 2027. Our target price is pegged to 22x 2027F PE (+1SD above five-year mean of 18x). We deem this valuation as fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth ahead.
- **Key upside risks to our rating and target price include:** a) higher-than-expected contract wins, b) escalating rollout of mega projects, and c) improving institutional or foreign shareholdings which will further tighten the stock's liquidity (floating shares of about 20%).

**Segmental Forecasts**

| (RMm) | 2024 | 2025 | 2026F |
|---|---|---|---|
| Revenue | 3,522 | 5,339 | 5,337 |
| - Construction | 3,327 | 5,132 | 5,013 |
| - Precast Concrete | 195 | 207 | 324 |
| Operating profit | 262 | 448 | 454 |
| - Construction | 240 | 446 | 418 |
| - Precast Concrete | 22 | 2 | 36 |
| Orderbook replenishment assumptions | | | |
| - Construction | 4,200 | 5,200 | 6,000 |
| - Precast Concrete | 200 | 300 | 300 |

*Source: UOB Kay Hian*

## Earnings Revision/Risk

- Maintain earnings forecasts.

## Environment, Social, Governance (ESG) Updates

### Environmental

- Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution.

### Social

- Work with local authorities and communities to ensure projects' success.

### Governance

- Independent directors (four out of seven) comprise the majority of the board.

## Profit & Loss

| Year to 31 Dec (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 5,339 | 5,337 | 5,476 | 5,580 |
| EBITDA | 469 | 483 | 487 | 514 |
| Deprec. & amort. | 21 | 29 | 26 | 23 |
| EBIT | 448 | 454 | 462 | 491 |
| Associate contributions | 15 | 17 | 19 | 20 |
| Net interest income/(expense) | 62 | 95 | 104 | 113 |
| Pre-tax profit | 526 | 566 | 584 | 624 |
| Tax | (123) | (124) | (129) | (137) |
| Minorities | (40) | (7) | (7) | (7) |
| Net profit | 362 | 435 | 449 | 480 |
| Net profit (adj.) | 425 | 435 | 449 | 480 |

## Balance Sheet

| Year to 31 Dec (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 122 | 111 | 103 | 99 |
| Other LT assets | 656 | 759 | 778 | 797 |
| Cash/ST investment | 2,000 | 1,895 | 1,917 | 1,912 |
| Other current assets | 1,646 | 1,600 | 1,597 | 1,582 |
| Total assets | 4,424 | 4,370 | 4,399 | 4,393 |
| ST debt | 158 | 131 | 105 | 79 |
| Other current liabilities | 2,945 | 2,936 | 3,016 | 3,062 |
| LT debt | 143 | 119 | 95 | 71 |
| Other LT liabilities | 10 | 10 | 10 | 10 |
| Shareholders' equity | 1,087 | 1,080 | 1,074 | 1,066 |
| Minority interest | 81 | 88 | 95 | 102 |
| Total liabilities & equity | 4,424 | 4,370 | 4,399 | 4,393 |

## Cash Flow

| Year to 31 Dec (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 1,617 | 490 | 546 | 551 |
| Pre-tax profit | 526 | 566 | 584 | 624 |
| Tax | (107) | (124) | (129) | (137) |
| Deprec. & amort. | 21 | 29 | 26 | 23 |
| Associates | (15) | (17) | (19) | (20) |
| Working capital changes | 1,133 | 37 | 84 | 61 |
| Other operating cashflows | 60 | 0 | 0 | 0 |
| Investing | (27) | (18) | (18) | (19) |
| Capex (growth) | (44) | (18) | (18) | (19) |
| Proceeds from sale of assets | 24 | 0 | 0 | 0 |
| Others | (7) | 0 | 0 | 0 |
| Financing | (608) | (491) | (506) | (537) |
| Dividend payments | (305) | (441) | (456) | (487) |
| Proceeds from borrowings | (422) | (50) | (50) | (50) |
| Others/interest paid | 119 | 0 | 0 | 0 |
| Net cash inflow (outflow) | 982 | (19) | 22 | (5) |
| Beginning cash & cash equivalent | 936 | 1,914 | 1,895 | 1,917 |
| Changes due to forex impact | (5) | 0 | 0 | 0 |
| Ending cash & cash equivalent | 2,000 | 1,895 | 1,917 | 1,912 |

## Key Metrics

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 8.8 | 9.0 | 8.9 | 9.2 |
| Pre-tax margin | 9.8 | 10.6 | 10.7 | 11.2 |
| Net margin | 6.8 | 8.2 | 8.2 | 8.6 |
| ROA | 11.4 | 13.8 | 14.2 | 15.2 |
| ROE | 42.0 | 50.6 | 52.5 | 56.3 |
| Growth | | | | |
| Net profit (adj.) | 154.2 | 2.2 | 3.2 | 6.9 |
| Leverage | | | | |
| Debt to total capital | 25.7 | 21.4 | 17.1 | 12.9 |
| Debt to equity | 27.6 | 23.2 | 18.6 | 14.1 |
| Net debt/(cash) to equity | (156.4) | (152.2) | (159.9) | (165.3) |

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